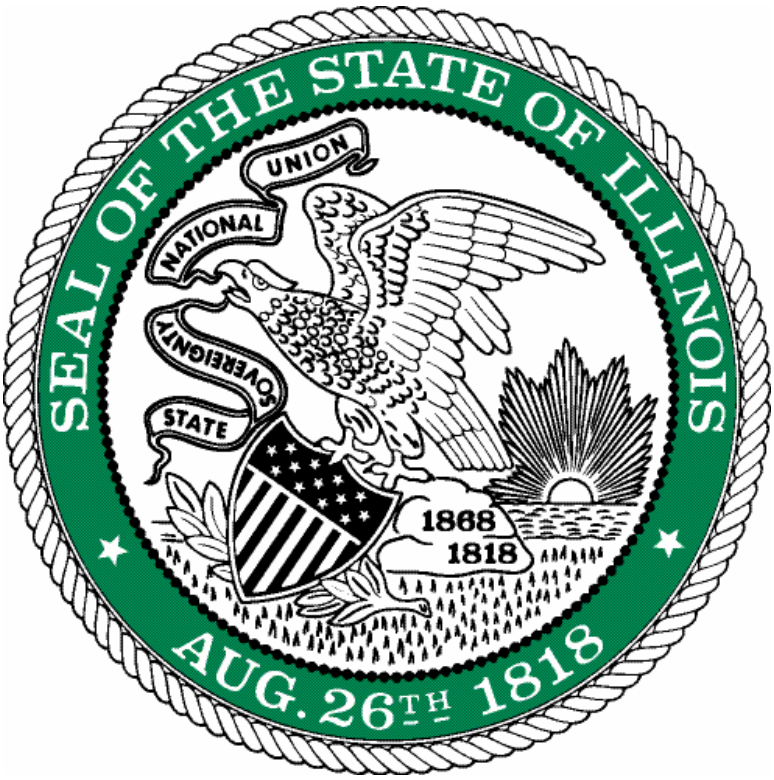

Government Privatization

History, Examples, and Issues

Commission on Government
Forecasting and Accountability
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Commission on Government
Forecasting and Accountability

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EXECUTIVE SUMMARY

With the growing trend of privatization and public private partnerships in state and local governments, the Commission has put together this report to inform interested parties on forms of privatization, the history of privatization, reasons for privatization, methods of valuing public assets, examples of privatization that could be relevant to Illinois, and issues associated with privatization.

Some highlights of the report are:

- Privatization is the process of transferring property from public ownership to private ownership and/or transferring the management of a service or activity from the government to the private sector.
- Types of privatization include complete privatization, privatization of operations, privatization through contracts, franchising, and open competition.
- Privatization of public assets has historically occurred more frequently outside the United States. This is most readily seen in nationally run industries in former socialist countries that are moving towards more free market economies.
- Privatization of public services has occurred at all levels of government within the United States. Some examples of services that have been privatized include airport operation, data processing, vehicle maintenance, corrections, water and wastewater utilities, and waste collection and disposal.
- Reasons for privatization include cost reduction, risk transfer, a source of revenue, the desire for a higher level of service, a need for greater expertise, and flexibility.
- Commonly used methods of valuing public assets include net present value, internal rate of return, and multiples.
- Common areas of privatization that are examined in this report include:
    1. Toll Roads, Bridges, and Tunnels (Page 9),
    2. Utilities (Page 12),
    3. Corrections (Page 14),
    4. Lotteries (Page 15),
    5. Loan Portfolios (Page 16),
    6. Airports (Page 16),
    7. and Other Assets and Services (Page 17).
- Issues associated with privatization include the affects to public employees, transparency after privatization, ownership of public assets, competition within the system, and the importance of the contract or agreement.

I. Privatization

As defined by Wikipedia, privatization (also known as denationalization or disinvestment) is the process of transferring property from public ownership to private ownership and/or transferring the management of a service or activity from the government to the private sector. Privatization can be partial or complete. It may also carry conditions as to the change in ownership.

In recent years, public private partnerships have become a regular tool for national, state, and local governments to more conveniently fulfill their duties. By involving groups from the private sector, governments have tried to improve the way they perform their duties especially concerning infrastructure improvement projects. Governments have transferred over design, construction, operation, and maintenance responsibilities to the private sector based on the belief that the private sector can fill these needs more efficiently than the government could. Governments are also leasing or selling established government assets, such as toll roads or loan portfolios, in exchange for upfront cash payments. These moneys are used towards new projects or put towards other government needs.

II. Forms of Privatization

Five forms of privatization are identified by Richard C. Brooks in his paper "Privatization of Government Services: An Overview and Review of the Literature." These five forms of privatization are:

- Complete Privatization,
- Privatization of Operations
- Use of Contracts,
- Franchising,
- and Open Competition.

Complete Privatization

Complete privatization is the outright sale of government assets to the private sector. This type of privatization not only confers assets but also the related responsibilities of ownership to the private sector. Government run industries and assets have generally been completely privatized through one of three main ways. The first way is share issue privatization. The government sells shares of the government run company which can then be traded on various stock markets. Share issue privatization has been the most prevalent method used, though a developed secondary market is necessary. The second method is through asset sale privatization. In this method, the whole firm or asset is sold to an investor. This is usually done by auction. The final method is voucher privatization in which shares of ownership are distributed to all citizens for

free or for a very low price. Complete privatizations have been seen mostly in the transition economies of Central and Eastern Europe in recent years.

Complete privatization has been somewhat rare in the United States due to the market driven economy and federal regulations associated with the sale of public assets that were built using federal grants. An example of this kind of transaction in the U.S. can be seen in the sale of the Fairbanks Municipal Utilities System for $100 million in 1996. The company was sold by the City of Fairbanks under provisions that kept utility rates within certain ranges and provided for stable employment.

Privatization of Operations

The privatization of operations is the turning over of managerial and operational responsibilities of publicly owned facilities to private sector firms. This kind of privatization is often seen with the running of sports and concert venues. Under this arrangement, the private sector firm generates revenue through the collection of fees from individual customers of the government asset. For example, the sports stadiums in New York City are managed by the baseball teams that use the facilities during the baseball season but are run by the New York City Department of Parks during the off season. This kind of arrangement can also be seen in transactions concerning the operation and maintenance of toll roads and toll bridges.

Contracting Out

Contracting out is the production of designated services by a private firm under a contract. Under this scenario, the private sector firm is paid directly by the government for their services. The government finances these services through the taxes or the collection of user fees. This type of arrangement is commonly used for the collection and disposal of solid waste. Other types of services that have been privatized through this type of agreement include security services, data processing services, and consulting services for numerous professions.

Franchising

Franchising is the awarding of exclusive rights to perform services within a specific geographic area to a private firm by a governmental unit. The private firm generates revenue by collecting user fees. Cable television is the most common example of this kind of privatization. Utilities such as electricity, gas, and water service could also fall under this category.

Open Competition

Open competition is the last form of privatization under this classification. Open competition is similar to pure competition as many private firms are allowed to compete for customers within a governmental jurisdiction. This type of privatization can potentially be seen in telephone and internet service providers. This type of privatization is not appropriate for some services as it most likely would not be efficient to have multiple suppliers of electricity, gas, or water service.

III. Privatization around the World

Privatization outside the U.S.

Privatization has occurred numerous times around the world especially in former socialist countries. Nationalized industries were often privatized as socialist leaning countries moved towards a more market oriented economy. Socialist countries often faced the problem of having to privatize between 60%-80% of their economies, whereas market based economies had about 10% owned by the public. Industries that were often owned by national governments included gas, electric, water, and telephone services. Other industries included airline service, railway service, bus service, and even some manufacturing.

More relevant to the United States would be the period of privatization that has occurred in Western Europe and Japan over the last thirty years. Beginning with the Margaret Thatcher administration in Great Britain during the late 1970s and early 1980s, privatization of numerous National assets occurred. This privatization movement began with the partial sale of British Petroleum in 1979. This was followed by the sale of an airplane manufacturer (British Aerospace), a radiochemical group (Amersham International), and a freight company (National Freight Company) in 1981 and 1982. Privatization within the country continued with the selling of Britoil, British Ports, Jaguar Cars, and British Telecom in the mid-1980s. British airways, one of the leading airline carriers in Europe, was privatized with an initial public offering (IPO) in 1987. Japan had similar privatization transactions during the mid-1980s. Japan privatized the nation's monopolies in the tobacco and salt industries in 1984. This was followed by the sale of its telephone service and railway service in 1986.

Along with these industries, numerous infrastructural assets such as roads, bridges, and buildings have been privatized around the world. These transactions will be used as example transactions in later sections of this report when analyzing the types of assets that have been privatized in the past.

Privatization in the U.S.

Privatization in the U.S. has somewhat lagged behind other areas of the world. One reason for this is that the U.S. was developed as a free market economy. As such, the government has not been the owner of numerous industries as in other countries. Because of this, the nation has not had to distribute assets as frequently as other countries. Some examples of a privatization of a government corporation are the Student Loan Marketing Association (Sallie Mae) and the Federal National Mortgage Association (Fannie Mae).

Another reason privatization was limited was due to federal regulations concerning infrastructure assets. Complete privatization of public assets to private investors was limited prior to 1992 due to federal regulations that required state and local government units to fully reimburse the federal government for grant monies received for infrastructure assets upon the sale of those assets. Since then, privatization has become more easily done by state and local governments. By Presidential order in 1992, the amount of reimbursement was reduced to the depreciated value of the federal grant monies. This was followed by the Federal-Aid Facility Privatization Act of 1995 which allowed state and local governments to transfer assets without reimbursing the federal government as long as the asset continues to be used for its original purpose.

More prevalent within the U.S. has been the privatization of services. Numerous services have been outsourced by federal, state, and local governments. A partial list of services that have often been privatized includes: airport operations, data processing, fleet or vehicle maintenance, hospitals, parking lots or garages, public safety or corrections, residential solid waste collection and/or disposal, transit or transportation, water and wastewater utilities, and vehicle towing or storage. More detailed examples of the privatization of these services will be presented in later sections of this report.

IV. Reasons for Privatization

There are numerous reasons why governments turn to privatization. Cost reduction is one motivation for privatization. The desire to transfer risk from the public sector to the private sector can lead to privatization. Another rationale for privatization could be as a new source of revenue. A higher level of service can also be a reason. An absence of expertise within the governmental unit is another. The timeframe with which a project needs to be completed could also factor in the decision for privatization. A final potential reason for privatization is the flexibility provided by the private sector.

Cost Reduction

Governments often outsource operations due to the potential cost savings. Private sector service providers are often able to deliver the same services as the public sector but at a lower price. There are many reasons for this. Private contractors are not constrained by the restrictions of the civil service system and public employee collective

bargaining agreements. Private contractors also have greater flexibility in personnel assignments and compensation packages. This leads to many private sectors offering salaries that can be increased via efficient operations, while public managers rarely have such bonus plans.

Risk Transfer

Governments often desire to transfer the risks of certain projects to the private sector. By contracting out for certain services, the public sector is exchanging the risks associated with those services for a monetary sum. In these transactions, the private sector obtains the monetary rewards for doing these services, but also takes on the risk that these services will cost more or take longer to provide than estimated when agreeing to do them. The private sector could also face capital finance risks if they have agreed to finance a project also. By agreeing to these kinds of deals, governments are better able to budget as future expenses are less variable. A chart showing the distribution of risk in different service delivery systems can be seen in Table 1.

Table 1. Risk Distribution in Various Delivery Systems

Delivery System	Public Owner	Architect/Engineer	Contractor
Design-Bid-Build	• Capital Finance Risks • Legal Liability • Maintenance Risk • Operations Risk • Political Risks • Schedule Risk (Construction)[1, 2]	• Design Liability • Constructed Quality Risk[1]	• Constructed Quality Risk[1] • Schedule Risk (Construction)[1, 2]
Design-Build[3]	• Capital Finance Risks • Maintenance Risk • Operations Risk • Political Risks	• Design Liability[1] • Constructed Quality Risk[1] • Schedule Risk (Construction)[1, 2]	• Constructed Quality Risk[1] • Legal Liability • Schedule Risk (Construction)[1, 2]
Design-Build-Operate-Maintain[3]	• Capital Finance Risks • Political Risks[1]	• Constructed Quality Risk[1] • Design Liability[1] • Political Risks[1] • Schedule Risk (Construction)[1, 2]	• Constructed Quality Risk[1] • Design Liability[1] • Legal Liability • Maintenance Risk • Operations Risk • Political Risks[1] • Schedule Risk (Construction)[1, 2]
Design-Build-Finance-Operate-Mainatain[3]	• Political Risks[1]	• Capital Finance Risks[1] • Constructed Quality Risk[1] • Design Liability[1] • Political Risks[1] • Schedule Risk (Construction)[1, 2]	• Capital Finance Risks[1] • Constructed Quality Risk[1] • Design Liability[1] • Legal Liability • Maintenance Risk • Operations Risk • Political Risks[1] • Schedule Risk (Construction)[1, 2]

[1]Risk is shared among one or more of the participants (not necessarily equal potential liability)

[2]Schedule risk exist when liquidated damages are involved, or when the late opening of a project delays early revenues

3Value-based Delivery System assumes abbreviated design offset and a corresponding increase in Quality risk and Design Liability risk.

Source: Kenneth L. McGowan, "Value Based Delivery for Public Owners," paper presented to the National Society of Professional Engineers, July 2000. p. 6. in "Infrastructure Outsourcing: Leveraging Concrete, Steel, and Asphalt with Public-Private Partnerships." policy paper by the Reason Foundation, September 2000, p. 38.

Source of Revenue

The sale or lease of public assets can be used as a new revenue source. The sale/lease of toll roads, toll bridges, loan portfolios, buildings, and lotteries can be sources of large up front fees or extended fees depending upon the purchase or lease agreement. This new revenue can be used to pay down debt, fund new projects, or meet budgetary needs. This type of revenue generation is often used in lieu of taking on debt or raising taxes.

Quality of Service

The quality of service provided can also be a reason for privatizing a service or asset. Private sector groups may be able to provide a higher level of service for a similar cost. Governments may be looking for a higher level of service but cannot provide it by themselves. The private sector may be able to meet the level of service desired without raising cost.

Expertise

Contractors may be able to have expertise that governmental units do not wish to or cannot afford to provide in-house. These kinds of services are often needed so rarely that it does not make financial sense to maintain staff with these skills. Examples of outside expertise that is often contracted for are architecture and engineering for the construction of buildings.

Timeliness

The timeliness with which a project needs to be completed can also lead to privatization. In some situations, the government may have the skills to complete a project but they may not be able to complete it within the desired timeframe due to a lack of resources or time. Private groups can supplement the government's efforts and allow a project to maintain a time schedule that would otherwise not be met.

Flexibility

Often, due to collective bargaining agreements, the public sector is unable to hire and release employees as easily as private contractors can. As such, private contractors are more able to cope with the seasonal demands of some projects which can call for a large amount of labor during parts of the year but less at other times. This can allow the public sector to complete projects without the hassle or cost of hiring and firing employees.

V. Valuation of Assets

The determination of whether or not to privatize a service or an asset often comes down to the economics of the transaction. To determine if a service should be outsourced, a simple calculation of how much it costs to perform the service is compared to how much it would cost to have a private sector service provider do it. The valuation of revenue producing assets on the other hand can be more difficult. In this section, three methods that are often used to value assets will be summarized. The three methods are Net Present Value, Internal Rate of Return, and Multiples.

Net Present Value

Net present value is a valuation technique that calculates the present value of cash inflows and the present value of cash outflows through discounted cash flow analysis. Discounted cash flow analysis uses estimates of future cash flows and discounts them to account for the time value of money and associated risks to arrive at a net present value of an asset. Future cash flows are estimated using past results as a guide along with any pertinent changes that are expected in the future that could affect these cash flows. The estimated cash flows are then discounted by a discount rate. The discounted cash flows are then summed to reach a net present value. A positive number indicates that a potential transaction is beneficial to the company, while a negative net present value indicates that an investment of this type does not meet the risk-reward standards of the company and should be passed on.

This discount rate often used in net present value analysis is the weighted average cost of capital (WACC). A company's assets are financed by either debt or equity. WACC is the average of these sources of financing, each of which is weighted by its respective use in a given situation. Different companies will have different WACCs depending upon the industry they are in and how they finance their operations. For more detailed information on WACC, please see Appendix A.

An example of how net present value analysis works can be seen in Table 2. Table 2 illustrates how discounted cash flow is used to arrive at a net present value of an asset. In this example, the values of five future cash flows of $100 per year are available for a price of $400. These cash flows are discounted by two different firms. One buyer has a discount rate of 5%; the other buyer has discount rate of 10%. The cash flows are discounted to arrive at a present value for each cash flow. These values are then summed to get a net present value. In this example, the future cash flows are presently worth $32.95 ($432.95-$400.00 = $32.95) for the first buyer and $-20.92 ($379.08-$400.00) for the second buyer. The first buyer would be willing to buy the asset for $400, while the second buyer would not buy. This shows how buyers with lower discount rates would be willing to pay more, while buyers with higher discount rates would be willing to pay less for the same estimated cash flows. As demonstrated here, the discount rate used by a perspective buyer can greatly affect the valuation of an asset.

Table 2. Net Present Value Example					
Year	Cash Flow	Discount Factor @ 5% per year	Present Value @ 5%	Discount Factor @ 10% per year	Present Value @ 10%
Now	$ (400.00)	1	$ (400.00)	1	$ (400.00)
1	$ 100.00	1.05	$ 95.24	1.1	$ 90.91
2	$ 100.00	1.1025	$ 90.70	1.21	$ 82.64
3	$ 100.00	1.157625	$ 86.38	1.331	$ 75.13
4	$ 100.00	1.21550625	$ 82.27	1.4641	$ 68.30
5	$ 100.00	1.276281563	$ 78.35	1.61051	$ 62.09
		Net Present Value	$ 32.95	Net Present Value	$ (20.92)

This kind of analysis is highly dependent upon the assumptions used in developing the future cash flows and the discount rate. The estimated future cash flows from an asset can differ significantly between valuations by different perspective buyers. As such, bids on the sale of assets can vary. In the lease of the Indiana Toll Road, the winning bidder (ITR Concession Co.) paid $3.8 billion. The other bids received were for $2.8 billion and $1.9 billion. The $3.8 billion bid was basically twice as high as the lowest bid.

Internal Rate of Return

Internal Rate of Return (IRR) is a valuation method similar to net present value analysis but focuses on the discount rate. The IRR is the rate at which the net present value of a transaction would equal zero. If the IRR of a project is higher than a perspective buyers required rate of return, the investment should be undertook. If the IRR is lower, the investment should not be pursued. The required rate of return is often referred to as the "hurdle rate". The hurdle rate is often based on a company's WACC plus or minus a risk premium for the individual investment. Using the same cash flows as in the previous example, Table 3 shows that the potential project highlighted in Table 2 has an IRR of 7.93%. As such, buyer one would once again pursue the project, while buyer two would pass.

Table 3. Internal Rate of Return Example			
Year	Cash Flow	Discount Factor @ 7.93% per year	Present Value @ 7.93%
Now	$ (400.00)	1	$ (400.00)
1	$ 100.00	1.079308268	$ 92.65
2	$ 100.00	1.164906338	$ 85.84
3	$ 100.00	1.257293042	$ 79.54
4	$ 100.00	1.357006776	$ 73.69
5	$ 100.00	1.464628633	$ 68.28
		Net Present Value	$ (0.00)
		IRR	7.93%

Multiples

While discounted cash flow analysis is usually the primary method in valuing potential investments, the use of multiples for valuation is often utilized to confirm the valuations calculated by discounted cash flow analysis. Multiples are a valuation based on the assumption that similar assets sell for similar prices. The technique assumes that a ratio comparing value to some firm-specific variable should be the same. Variables that are often used in multiples are total sales, operating profit, earnings, and free cash flow. Multiples should only be used to compare similar transactions. As such, you should not use the multiples of a toll road lease to those of a lottery lease. Also, multiples valuation is not as effective in areas where there has not been a significant amount of transactions. This would somewhat limit it in some areas of privatization in the U.S. as privatization of certain assets is relatively novel.

An example of multiples comparison can be seen in the lease of toll roads. The Chicago Skyway and the Indiana Toll Road were both leased in the recent past. The Chicago Skyway was sold for $1.83 billion which was a multiple of 45 times revenue and a multiple of 61 times operating profit. The Indiana Toll Road was sold for $3.8 billion which was a revenue multiple of 40 times and an operating profit multiple of 64. As seen in these examples, these leases appear to be inline with the industry as the multiples were similar.

VI. Privatization Examples

This section will highlight examples of public private partnerships that have occurred around the world over the past few decades. The section will focus on six categories of transactions. Those categories include: 1) Toll Roads, Bridges, and Tunnels, 2) Utilities, 3) Corrections, 4) Lotteries, 5) Loan Portfolios, 6) Airports, and 7) Other Assets and Services. Each section will describe examples of each type and outline how these types of transactions could relate to Illinois.

Toll Road, Bridges and Tunnels

One of the most significant developments in public private partnerships is the lease of toll roads, bridges, and tunnels by state and local governments to private contractors. While these kinds of deals have occurred in Europe and Australia previously, they are relatively novel to the U.S. Concession deals associated with the Chicago Skyway and Indiana Toll Road have made headlines in recent years. Currently, state and local governments around the country are considering the privatization of such toll roads as the Ohio Turnpike, Harris County Toll Road, and the Atlantic City Expressway.

These kinds of transactions generally can take form in two ways, Brownfield projects and Greenfield projects. Brownfield projects are those that involve the use of previously in place assets or facilities. Brownfield projects occur when private vendors

lease toll roads and bridges for a specified time period in exchange for a single upfront payment or an upfront payment and revenue sharing in the future. This kind of transaction was conducted in the Chicago Skyway and Indiana Toll Road transactions. Greenfield projects are projects that necessitate the construction of new assets or facilities. A potential example of a Greenfield project is being transacted in Texas. The State of Texas is entering into an agreement with Cintra Zachry to design, build, and operate a 316 mile toll road from Dallas to San Antonio as part of the Trans Texas Corridor system.

The transactions concerning the Chicago Skyway and the Indiana Toll Road have raised interest due to the high values that were paid for them. Both roads were leased to a consortium led by Cintra de Infraestructuras de Transporte (a Spanish toll operator) and Macquarie Infrastructure Group (an Australian infrastructure investor). As mentioned previously, the 7.8 mile Chicago Skyway was leased for 99 years in exchange for an upfront payment of $1.83 billion. The Indiana Toll Road, which is 157 miles long and runs along the states northern border, was leased for 75 years at a cost of $3.85 billion. These amounts equaled to approximately 40 times revenues and 60 times operating profits.

Illinois has approximately 274 miles of toll roads located primarily in the suburbs of Chicago. These roads are operated and maintained by the Illinois State Toll Highway Authority. Roads included in the Illinois Tollway system are the Northwest Tollway (I-90 and I-39), the North-South Tollway (I-355), the Ronald Reagan Memorial Tollway (I-88), and the Tri-State Tollway (I-80, I-294, and I-94). Also parts of the system include seven oases that provide gas and food service for travelers. A map of the tollway system can be found in Appendix B.

The Illinois Tollway System is currently in the middle of a 10-year, $5.3 Congestion-Relief Program that began in 2005. The program consists of the refurbishing and upgrading of most of the system. The first feature of the program is the conversion of twenty mainline toll plazas to Open Road Tolling. A refurbishing of approximately 90% of the system is called for also. Lanes will be added to 117 miles of the existing roadways. Finally, a 12.5 mile extension will be added to the North-South Tollway from I-55 to I-80.

In 2005, the Illinois Tollway System had revenues of approximately $625 million. Of this $625 million, $600 came from tolls and toll evasion recovery, $4 million was brought in from concessions, and the final $21 million stemmed from investment income. These revenues were offset by $205 million in maintenance and operational expenses and $99 million in debt service. This left approximately $320 million for renewal, replacement, and improvement of the tollway system. Historical revenue and expense data for the Illinois Tollway System can be found in Table 4.

Table 4. Illinois Tollway Revenues and Expenses
(Dollars in Millions)

	2000	2001	2002	2003	2004	2005*
Operating Revenues:						
Toll Revenue	$343.9	$354.8	$363.2	$377.5	$391.6	600.0**
Toll Evasion Recovery	$ 0.2	$ 1.0	$ 1.0	$ 37.2	$ 16.0	0.0**
Concession & Other Revenue	$ 28.8	$ 10.3	$ 5.9	$ 7.6	$ 6.6	$ 4.0
Interest Income	$ 25.2	$ 23.8	$ 11.2	$ 8.5	$ 9.2	$ 20.7
Total Operating Revenue	$398.2	$389.8	$381.3	$430.8	$423.4	$ 624.7
Maintenance & Operating Expenses						
General Administration	$ 12.8	$ 10.8	$ 14.6	$ 19.5	$ 20.9	N/A
Engineering and Maintenance	$ 30.6	$ 31.0	$ 30.5	$ 35.3	$ 32.6	N/A
Toll Services	$ 57.4	$ 64.2	$ 66.8	$ 75.0	$ 81.7	N/A
Police, Safety, and Communication	$ 14.1	$ 15.6	$ 15.3	$ 16.1	$ 15.3	N/A
Insurance and Employee Benefits	$ 35.4	$ 39.0	$ 38.8	$ 41.3	$ 47.8	N/A
Capital Expenditures	-	-	-	-	-	N/A
Total Expenses	$150.4	$160.6	$166.0	$187.3	$198.3	$ 205.4
Net Operating Revenues	$247.8	$229.3	$215.3	$243.5	$225.1	$ 419.3
Total Debt Service	$ 79.7	$ 79.7	$ 79.7	$109.6	$ 48.4	$ 99.4
Net Revenues After Debt Service	$168.2	$149.6	$135.7	$134.0	$176.7	$ 319.9

* Data from 2005 is preliminary data that is unaudited.
** Toll Revenue and Toll Evasion Recovery was reported as $600 million for 2005.
Due to rounding, calculations may not add up.
Source: Bond Offering Statement of May, 2006, Illinois Tollway Authority

Due to interest in the privatization of the tollway system, the Commission on Government Forecasting and Accountability contracted with Credit Suisse to provide assistance in valuing the system. Credit Suisse produced a report that provided analysis on different privatization structuring options, valuation analysis, and key issues associated with privatization. Seven scenarios were analyzed using different assumptions concerning traffic growth, toll rate hikes, and discount rates. The valuations ranged from approximately $1.0 billion to $23.9 billion depending upon the scenario. Credit Suisse's report to the Commission can be found at http://www.ilga.gov/commission/cgfa2006/home.aspx.

Similar to toll roads, bridges and tunnels which collect tolls have been privatized throughout the U.S. In Illinois, there are plans to build a bridge connecting St. Louis, Missouri with East St. Louis, Illinois. There has been some support by politicians in Missouri to finance this bridge through a public-private-partnership in which a private company would finance and operate the bridge. The company would collect tolls to repay the cost of construction and to make a profit. Negotiations over this topic are ongoing as of July of 2006.

Utilities

Utilities in the U.S. are often a mixture of private and public assets. Electric, gas, water, and sewer are services that have been provided by both public and private providers. These assets are usually provided at a regional level or municipal level when provided for by the public sector. The following section looks at how each of these services are provided in Illinois.

Electricity

Eight investor-owned public utilities provide electric service to residential customers in Illinois. These companies are under the regulation of the Illinois Commerce Commission (ICC). These utilities include:

- AmerenCILCO
- AmerenCIPS
- AmerenIP
- Commonwealth Edison Company
- Interstate Power and Light Company
- MidAmerican Energy Company
- Mt. Carmel Public Utility Company
- South Beloit Water, Gas, and Electric Company

In addition to these companies, electric service is provided in some areas through municipal systems and electric cooperatives. These local electric providers are not regulated by the ICC. These additional systems could be candidates for privatization whereas the other utilities are already investor owned.

The State of Illinois has tried to achieve a state of open competition in the retail sector for electricity. Through the Illinois Electric Service Customer Choice and Rate Relief Act of 1997, customers were given greater choice in who supplies their electric power services. By the end of 2000, all non-residential customers had the option to choose their electric supplier. Suppliers that are able to provide service include a customer's current electric utility, another Illinois electric utility, or an alternate retail electric supplier certified by the ICC.

Natural Gas

Thirteen investor-owned public utilities provide gas service to residential customers in Illinois. These companies are also under the regulation of the ICC. Included among this group are:

- AmerenCILCO
- AmerenCIPS
- AmerenIP
- Atmos Energy Corporation

- Consumers Gas Company
- Illinois Gas Company
- Interstate Power and Light Company
- MidAmerican Energy Company
- Mt. Carmel Public Utility Company
- Nicor Gas Company
- North Shore Gas Company
- People Gas Light and Coke Company
- South Beloit Water, Gas, and Electric Company

Similar to electric service, there are local municipal gas systems that are not under the regulation of the ICC and could be candidates for privatization.

Water and Sewer

Water and sewer utilities tend to be the most publicly owned utility in Illinois. Of the 1,782 public water suppliers and 808 public sanitary sewage systems with treatment facilities within the state, only 31 water, 4 sewer, and 13 combined water and sewer utilities are investor owned. These privately owned utilities provide water for approximately 1.2 million people and sewer service to 127,000 people. These investor owned utilities are concentrated in the Chicago metropolitan area. In recent years, the ICC has encouraged consolidation within this industry as larger municipal and investor owned utilities are able to gain economies of scale that the smaller municipal utilities cannot. The ICC believes that customers receive better service at lower rates with larger service providers. An example of privatization within Illinois is the acquisition of the municipal water system of the City of Philo by Aqua Illinois in 2004.

One trend that is somewhat different than other sectors is that there are also some examples of municipalities buying back their water systems from private utilities. An example of this can be seen in the City of Peoria. Peoria sold its municipal water system to private investors in 1889 for $225,000. Peoria has been in negotiations with Illinois-American Water Company (IAWAC) to buy back their water system. During 2005, the Peoria City Council declined to exercise the purchase option under their contract with IAWC. This issue may come up again as under the contract Peoria can buy back the water system without IAWC's concurrence in 2008. These kinds of transactions are called nationalization and are the opposite of privatization.

Corrections

Privatization in corrections has occurred at all levels of government. Services provided include the design, build, finance, operation, and maintenance of prisons. Beyond that, corrections officials have outsourced such services as food service, heath service, and mental health services in prisons that are run by the public. In 2005, thirty-five states housed prisoners in privately owned and operated prisons. The highest levels of privatization have occurred in the southern and western parts of the country. Texas has the most prisoners held in private facilities with 16,906 inmates. Oklahoma (5,868) and Mississippi (4,397) had the next most. In terms of percentage of inmates in private facilities, New Mexico had the most with 42.6% of their inmates housed in private facilities. Wyoming (38.4%) and Arizona (29.5%) were second and third highest. The majority of states who house inmates in private facilities do so sparingly. Only 8 of the 35 states who use private facilities, house more than 20% of their total inmate population in private facilities. Information on the housing of inmates in private facilities can be seen in Table 5.

As of June 30, 2005, Illinois did not house any prisoners in private facilities. This duty is performed by the Illinois Department of Corrections. The department had a budget of $1.2 billion in FY 2005. With this money, the department housed over 46,000 prisoners and supervised over 35,000 parolees. The average annual per capita cost to house these inmates was $21,622 for adults and $70,827 for juveniles. The Department of Corrections has 13,670 employees who work at one of the 75 department facilities. Illinois has outsourced numerous services to the private sector. Services such as medical services, mental health services, treatment programs, community residential programs, and food services have all been outsourced.

Statistics for Illinois Department of Corrections facilities can be found in Appendix C. Information

Table 5. Prisoners held in Private Facilities

Region and jurisdiction	Number of inmates 6/30/2005	6/30/2004	Percent of all inmates/a 6/30/2005
U.S. Total	101,228	98,570	6.7%
Federal/b	26,544	24,506	14.4%
State	74,684	74,064	5.6%
Northeast	3,214	3,328	1.9%
Connecticut	0	0	0.0%
Maine	0	0	0.0%
Massachusetts	0	0	0.0%
New Hampshire	0	0	0.0%
New Jersey/c	2,437	2,566	8.7%
New York	0	0	0.0%
Pennsylvania	403	361	1.0%
Rhode Island/c	0	0	0.0%
Vermont/c	374	401	18.9%
Midwest	2,961	3,854	1.2%
Illinois	0	0	0.0%
Indiana	88	655	0.4%
Iowa	0	0	0.0%
Kansas	0	0	0.0%
Michigan	479	480	1.0%
Minnesota	403	268	4.4%
Missouri	0	0	0.0%
Nebraska	0	0	0.0%
North Dakota	57	47	4.3%
Ohio	1,924	1,903	4.3%
South Dakota	10	8	0.3%
Wisconsin	0	493	0.0%
South	48,266	47,899	8.0%
Alabama	257	153	0.9%
Arkansas	0	0	0.0%
Delaware	0	0	0.0%
Florida	5,423	4,327	6.2%
Georgia	4,625	4,597	9.7%
Kentucky	1,907	1,679	10.1%
Louisiana	2,924	2,923	7.8%
Maryland	129	126	0.6%
Mississippi	4,837	4,397	23.2%
North Carolina	206	217	0.6%
Oklahoma	5,812	5,868	24.5%
South Carolina	15	17	0.1%
Tennessee	5,142	5,121	19.6%
Texas	15,414	16,906	9.0%
Virginia	1,575	1,568	4.4%
West Virginia	0	0	0.0%
West	20,243	18,983	6.8%
Alaska	1,365	1,304	29.5%
Arizona	5,291	4,371	16.2%
California	2,470	2,797	1.5%
Colorado	3,320	3,074	15.9%
Hawaii	1,774	1,621	29.2%
Idaho	1,283	1,269	20.9%
Montana	747	646	22.2%
Nevada	0	455	0.0%
New Mexico	2,810	2,649	42.6%
Oregon	0	0	0.0%
Utah	0	0	0.0%
Washington/c	406	232	2.4%
Wyoming	777	565	38.4%

a/Based on the total number of inmates under State or Federal jurisdiction.

b/Includes Federal inmates held in privately operated community correctional centers:
c/Inmates held in out-of-State private facilities.

Source: Burea of Justice Statistics

on the date of opening, capacity, average daily population, percent capacity, and average annual cost per inmate can be found there.

Lotteries

In May of 2006, Governor Rod Blagojevich proposed the sale or lease of the State's lottery to fund improvements in the State's educational funding. In July of 2006, the Illinois Office of Management and Budget put out a request for proposals from firms interested in advising the state on the proposed privatization of its lottery. The proposal was based on an up-front purchase fee of approximately $10 billion which was valued by an initial proposal by Goldman, Sachs & Co. In FY 2006, the lottery had revenues of $1.985 billion and transferred $670.5 million to the general revenue fund. This would indicate a revenue to purchase price multiple of 5.0 times and a profit to purchase price multiple of 14.9 times.

Several states, including Illinois, have outsourced various operational aspects of their lottery but no state has completely privatized their lottery since state lotteries were introduced in New Hampshire in 1964. During the 1800's, there were some private lotteries, though these were begun as private entities and not privatized from the public sector. Beyond the United States, a high level of privatization can be seen in the UK National Lottery, which is operated by the Camelot Group, and in lotteries run by Tattersall in Australia.

Though the sale or lease of a state lottery is novel in the United States, transactions such as this have occurred in a few other countries. As mentioned previously, the Camelot Group runs the National Lottery in the United Kingdom and the Tattersall's company runs numerous lotteries in Australia. Turkey is also currently considering the privatization of its national lottery. The potential cost of buying or leasing the Illinois Lottery could be a deterrent as the price would be in the billions of dollars. The Connecticut Lottery had problems with finding quality bidders during a similar privatization bid in the early 1990's.

Finding quality bidders would most likely be less problematic now than in the early 1990's, as public-private-partnerships have become more mainstream in recent years. Large institutional investors, such as pension systems, have shown interest in the stable returns offered from these kinds of public assets. These institutional investors could then outsource operational duties to lottery service providers. Also lottery service providers have formed consortiums to invest in lotteries. The Camelot Group was formed as a consortium of companies that had expertise in individual operational areas of running lotteries.

Some groups who might show interest in investing in the lottery include:

- GTECH (lottery service provider, merging with Lottomatica)
- Lottomatica S.p.A (operates the Italian lottery, merging with GTECH)
- Camelot Group (operates the U.K. national lottery)

- Tattersall Limited (operates lotteries in Australia)
- Scientific Games Corp. (lottery service provider)
- International Game Technology (lottery service provider)
- Institutional Investors
- Pension Funds

Student Loans

The biggest example of privatization in student lending is Sallie Mae. Sallie Mae was established in 1972 as a government-sponsored enterprise (GSE) by the federal government to help students by facilitating a secondary market in federally guaranteed student loans. As a GSE, it had benefits such as exemptions from state and local taxes but it was limited in the kinds of business it could enter. In 1996, the SLMA Reorganization Act was enacted, which began the process of converting Sallie Mae into a private business while still meeting the needs of the borrowing student public. The privatization of Sallie Mae was completed in December of 2004.

Some states have privatized portions of their student loan programs. Opponents of these kinds of transactions claim that interest rates on student loans increase severely after the sale of the loans. Currently, Missouri is trying to sell more than $2 billion worth of its student loan portfolio, operated by the Missouri Higher Education Loan Authority, in exchange for approximately $425 million. In 2004, Sallie Mae tried to buy Pennsylvania's student loan program, the Pennsylvania Higher Education Assistance Agency, but was turned down due to concerns by state officials over the impact of the takeover on college students and their families. Sallie Mae is the major private company in this industry and has bought numerous non-profit entities that provide student loans.

In 1957, state lawmakers created the Illinois Student Assistance Commission (ISAC) to ensure that financial considerations did not prevent Illinois students from realizing their postsecondary educational goals. ISAC offers numerous programs, such as grants, scholarships, and minimum rate educational loans, to help the students of Illinois. In Public Act 094-0839, the State Comptroller and State Treasurer are directed to transfer $38.8 million to the General Revenue Fund from the sale of all or a portion of the $3.8 billion ISAC loan portfolio. In June of 2006, ISAC sent out a request for proposals for consulting services related to the sale of their student loan portfolio. As of the time of the writing of this report, the sale of the ISAC loan portfolio was ongoing.

Airports

Complete airport privatizations have been more prevalent throughout the world than in the U.S. Airport privatizations have taken place in Australia, Great Britain, Canada, Mexico, and The Netherlands. The major reason why airport privatizations have happened more frequently outside the U.S. is how airport planning, design, financing, and management have been organized. In most countries, airports are the complete

responsibility of the national government. In these countries, the national government finances, operates, and maintains the airports. In the U.S., commercial airports have been independent of national control and have been operated locally by municipal or regional authorities. U.S. airports have tended to already be influenced by competitive private groups (usually airlines) that have led to more efficient operations.

Though complete privatization is not as common as in other countries, privatization of individual airport services has occurred extensively in the U.S. A survey by the General Accounting Office during the 1990's found that 90% of the employees in the biggest 69 airports in the U.S. were employed by private companies. These employees conducted services such as ticketing, baggage handling, cleaning, concessions, and ground transportation. The 10% of the workers employed by the government were usually local and state government personnel performing administrative and public safety duties.

Examples of larger scale privatizations have occurred throughout the U.S. The Stewart Airport in New York is operated under a 30-year lease by the National Express bus company of Great Britain. The Port Authority of New York and New Jersey contracted with a private group to finance, build, and operate the International Arrivals Building at Kennedy airport. BAA plc entered into an agreement with the Indianapolis Airport Authority to operate all of the airports under their supervision including Indianapolis International Airport.

In Illinois, the possibility of privatization is gaining momentum. During 2005-2006, the General Assembly passed the Local Government Facility Lease Act (Public Act 094-0750). The Act makes it easier for the City of Chicago to lease Midway Airport, along with some city-owned parking garages, and garbage transfer stations to private operators. The Act keeps land beneath these facilities tax-exempt for the life of any lease.

Other Assets and Services

As stated previously, almost any asset or service provided by the public can be privatized. This section will briefly highlight some of the other areas that could be potentially privatized. These additional assets and services include 1) Rail and Bus Service, 2) Buildings, 3) Educational Services, and 4) Medical Services.

Rail and Bus Service

Rail and bus service that is provided by mass transit districts could be privatized. Under general law, local mass transit districts may be created to operate, maintain, or subsidize transit services through ordinance or resolution of one or more municipalities, counties, or any combination thereof. Examples of mass transit districts include the Metro East Mass Transit District, the Chicago Transit Authority, and the Springfield Mass Transit District.

Buildings

Generally, the design and construction of buildings has been privatized. Recently the financing, operation, and maintenance of buildings have been conducted more frequently by the private sector. Examples of this kind of transaction can be seen in Virginia. In Virginia, under the Public-Private Education Act of 2002, companies are allowed to make unsolicited bids to build facilities for the state, cities, and counties. This process has been used to construct a human services building in Chesapeake and a performing arts center in Virginia Beach.

Beyond the construction of buildings, they are also assets that can be leased or sold to the private sector. The state owns hundreds of buildings, parking garages, parking lots, and land through its numerous departments and agents. A large amount of these assets are managed under the Department of Corrections, the Department of Natural Resources, and within state universities.

Educational Services

Privatization of educational services has been a controversial issue around the country within recent years. The practice of using public money to fund private school vouchers has been tried in different areas around the country. The results of these practices have been mixed with proponents and opponents offering different interpretations. There has been some interest in expanding the role of the public in education as proposals for universal pre-schooling has been proposed in both California and Illinois. Illinois' "Preschool for All" law was signed by the Governor on July 26, 2006.

During the 2004-2005, there were 3,884 schools in 879 districts within the State. Over 2 million students attended public schools during that school year. Over 225,000 students attended non-public schools. Illinois had 1,435 nonpublic elementary, secondary, unit, and special education schools. Between the 1994-95 and 2004-05 school years, the number of students attending public schools increased 9.4%, while the number of students attending nonpublic schools decreased by 14.4%.

Medical Services

Approximately 23% of the 4,895 community hospitals in the U.S. are run by state or local governments. In 2001, the cost of a stay at a public hospital ($7,400) was 24% higher than a stay at a private-for-profit hospital ($5,972). Supporters of privatization in medical services cite bureaucracy, red tape, and outdated medical reporting and accounting systems as reasons for higher costs and lower quality of service in public hospitals. According to the American Hospital Association, in 2003 Illinois' 194 community hospitals admitted 1.6 million inpatients and treated 4.9 million patients in their emergency rooms.

Although various studies have shown privatized health care to be more cost efficient, the trend towards privatization is not taking hold everywhere. Health care has been heavily nationalized in other countries such as Canada, France, Germany, Sweden, and the United Kingdom. In these countries with nationalized health care systems, the government pays for, regulates, and administers health care services. Though these countries have nationalized their health care systems, they almost always eventually introduce market-oriented reforms to improve efficiency within the system.

One step away from privatization that Illinois has taken is the All Kids program. In 2005-06, Illinois began the All Kids program towards universal health insurance for all children. The program makes comprehensive health insurance available to all uninsured children. The program covers doctor visits, hospital stays, prescription drugs, vision care, dental care, and medical devices. Parents will pay monthly premiums and co-payments, while the State will cover the difference between what parents contribute in monthly premiums and the actual cost of providing health care. Through June 29, 2006, 43,000 kids had been enrolled in the program.

VII. Issues Associated with Privatization

The act of privatizing public services and assets comes with some points of contention. Opponents to privatization have pointed out some concerns that arise with privatization. Issues that arise when privatization is considered are:

- Public Employees,
- Transparency,
- Ownership,
- Competition within the system,
- And the Importance of the Contract.

Public Employees

One group who often opposes privatization is public employees. A major way private sector groups are able to provide services for less is through the use of less or more efficient labor inputs. When private groups take over assets such as toll roads or lotteries, they often want to lay off personnel or lower their wages and benefits. Public employees are also affected when services are outsourced. When a service is provided by a private firm, a governmental unit may not need to keep people who previously provided those services on staff.

Issues relating to public employees can be handled in the sale or lease agreement. Often certain guarantees are put into place concerning public employees, concerning continued employment, and salary level when these agreements are entered into. Another way public employee concerns are being dealt with is through the use of open competition. In some situations, public sector agencies are being allowed to bid on

public contracts along with private sector groups. An example of this can be seen in Texas where public agencies are openly competing with private sector groups on contracts associated with the construction of new roads.

Transparency

Another problem often cited with privatization is the lack of transparency once services are provided by a private sector group. With the numerous open meeting regulations public agencies operate under, the general public is used to being able to have some ability to oversee the operations of a public asset. Once public assets or services are transferred to the private sector, some of this transparency is often lost. This problem can be avoided by mandating certain reporting criterion in the contract and employing public oversight in the form of boards or authorities.

Ownership

Ownership issues can arise when deciding to privatize an asset. In many instances, an asset or service is supported by numerous public groups. For example, a mass transit district may be supported by government funding at the local, state, and federal level. When deciding to privatize this service, which level of government should receive the proceeds of the sale or lease?

Another ownership dilemma that can arise out this kind of situation is how to spend the proceeds. An example of this type of problem is when a state owned toll road is leased or sold. The use of these proceeds can lead to disagreements. The question that often arises is should the proceeds be spent on more projects near where the toll roads are located (as the people who primarily use the toll roads live there) or should they be spread out around the state (as the state as a whole owns the asset)? Issues like this can be very contentious when discussions on privatization occur.

Competition

Keeping competition within the privatization problem can be difficult when privatizing public assets. Competition leads to more efficient operations and lower costs. Unfortunately, leases for toll roads, building operations, and other large assets tend to be long term agreements. As such, the private sector group who initially wins the bid to own or lease an asset will be the lessee for decades if not up to a century. The lease for the Indiana Toll Road was for 75 years and the lease for the Chicago Skyway was for 99 years. The quality of service provided by these groups may slacken in the pursuit of higher profits. Service levels may be mandated in the sale or lease contract but even this might not be enough. To enforce the contract, the government might have to use legal means which they may be reluctant to use.

One way to fight this problem is to have contracts come up for bid more frequently. By having shorter length contracts, the private contractor has more incentive to keep the quality of service at a high level as they would be more likely to retain the contract by doing so. Though this comes with its own problem as the up front fee for shorter length leases would be less than the long tem lease of a revenue generating asset.

Importance of the Contract

As one can infer from the previous points in this section, the contract for these kinds of transactions are very important. The terms of the agreement would define what assets, rights, and limitations would be transferred to the purchaser/leaser and to the State. Things like quality of service, any revenue or cost sharing, and courses of action in case of one party not living up to the agreement can be outlined. Often defined in the contract are what is to happen to any public employees who are affected. In the case of toll roads, toll bridges, and toll tunnels, one main feature of the contract is the amount and time frame in which tolls can be raised. Contracts associated with the lease of public assets can be very detailed. An example of this can be seen in the lease of the Indiana Toll Road which had a contract that was 400 pages long.

The example of the U.K. lottery privatization can highlight the importance of the contract. The Camelot Group was accepted as the lottery operator for seven years starting in 1994. The company was granted a certain percentage of the profits with the rest going to cultural projects in the U.K. Public sentiment towards the agreement turned sour when the company‘s executives and board members gave themselves huge raises after the first few years. While this lessened the company’s profits marginally, the majority of the increased salaries were picked up at the expense of the cultural projects.

VIII. Conclusion

To close, privatization has become more common in the U.S. over the last few decades. Privatization of services has been widespread at all levels of the government but the sale or long-term lease of large public assets such as toll roads or lotteries is still relatively novel. Privatization can range from a simple contract with a private vendor to the sale of a public asset. Governments have often turned to privatization due to cost concerns but other reasons include a need for greater expertise, a time constraint, to transfer risk, or a need for a new revenue source. Examples of large scale privatizations include the sale or lease of toll roads, lotteries, loan portfolios, utilities, and airports. Valuations of these kinds of transactions can be difficult as long term assumptions must be made. Issues related to the sale of these kinds of assets include problems related to public employees, transparency, ownership, competition, and the importance of the contract.

APPENDIX A: Weighted Average Cost of Capital (WACC)

The Weighted Average Cost of Capital (WACC) is a discount rate that is often used in discounted cash flow analysis to value projects and assets. As explained by Investopedia.com, WACC is a calculation of a firm's cost of capital in which each category of capital is proportionately weighted. All capital sources - common stock, preferred stock, bonds and any other long-term debt - are included in a WACC calculation.

WACC is calculated by multiplying the cost of each capital component by its proportional weight and then summing:

$$WACC = \frac{E}{V} * \mathrm{R_e} + \frac{D}{V} * R_d * (1 - T_c)$$

Where:
R_e = cost of equity
R_d = cost of debt
E = market value of the firm's equity
D = market value of the firm's debt
V = E + D
E/V = percentage of financing that is equity
D/V = percentage of financing that is debt
T_c = corporate tax rate

The cost of equity can be found using the Capital Asset Pricing Model (CAPM). CAPM is a model that describes the relationship between risk and expected return. The cost of equity can be found using the CAPM equation:

$$\mathrm{R_e} = r_f + \beta_a(\bar{r}_m - r_f)$$

Where:
r_f = Risk free rate
β_a = Beta of the company
$\bar{r}_m$ = Expected market return

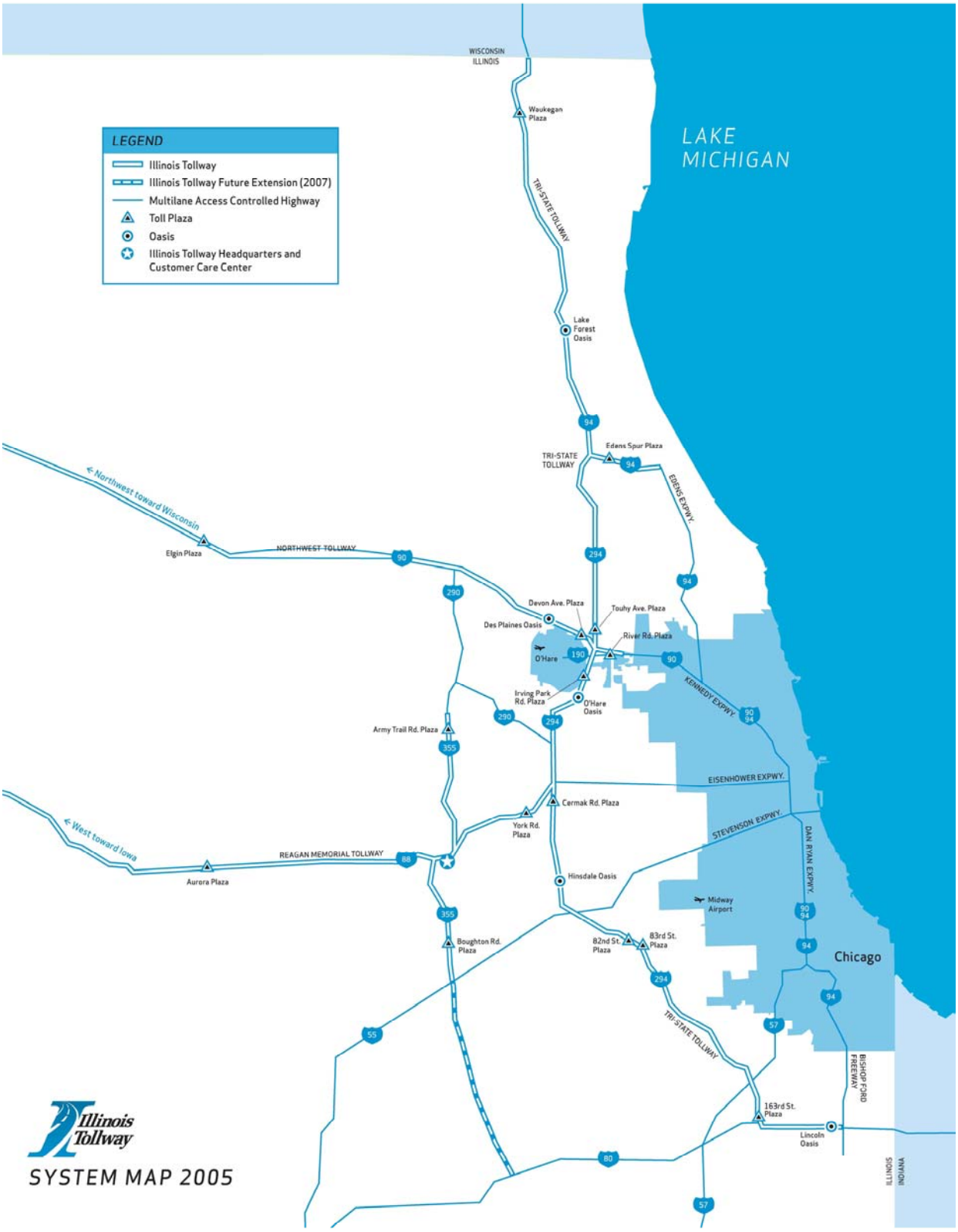
The risk free rate is usually the rate of the U.S. Treasury that is closest to the length of the investment being valued. In the case of a long term lease of a toll road or lottery, the 30-year Treasury bond would be an appropriate risk free rate. The beta of a security is a measure of volatility of a company to the market as a whole. The long term return of the S&P 500 (around 10% annually) is often used for the expected market return.

Broadly speaking, a company's assets are financed by either debt or equity. WACC is the average of the costs of these sources of financing, each of which is weighted by its respective use in the given situation. By taking a weighted average, we can see how much interest the company has to pay for every dollar it finances.

A firm's WACC is the overall required return on the firm as a whole and, as such, it is often used internally by company directors to determine the economic feasibility of expansionary opportunities and mergers. It is the appropriate discount rate to use for cash flows with risk that is similar to that of the overall firm. Cash flows with greater or different risks than the overall firm should use discounts that are higher than WACC.

SOURCE: http://www.investopedia.com

APPENDIX B. Map of the Illinois Tollway System



SOURCE: 2005 Annual Report, Illinois Tollway

APPENDIX C: IDOC Facility Information, FY 2003

	Year Opened	Gender	Capacity	Average Daily Population	% Capacity	Average Annual Cost Per Inmate
Level 1 - Maximum Security						
Dixon Psychiatric Unit	N/A	M	N/A	N/A	N/A	N/A
Dwight Correctional Center	1930	M	858	1,039	121%	$32,666
Menard Correctional Center	1878	M	1,938	3,315	171%	$19,190
Pontiac Correctional Center	1871	M	1,058	1,660	157%	$32,121
Stateville Correctional Center	1925	M	1,506	2,773	184%	$33,665
Tamms Correctional Center	1995	M	700	454	65%	$58,994
Thomson Correctional Center[1]	N/A	M	1,600	0	0%	N/A
Level 2 - Secure Medium Security						
Hill Correctional Center	1986	M	896	1,820	203%	$14,880
Lawrence Correctional Center	2001	M	2,257	915	41%	$28,326
Pinckneyville Correctional Center	1998	M	1,176	2,052	174%	N/A
Western Correctional Center	1989	M	1,102	1,921	174%	N/A
Level 3 - High Medium Security						
Big Muddy River Correctional Center	1993	M	1,152	1,860	161%	$16,293
Danville Correctional Center	1985	M	896	1,845	206%	$16,093
Dixon Correctional Center	1983	M	1,430	2,208	154%	$20,307
Illinois River Correctional Center	1989	M	1,011	2,004	198%	$15,687
Shawnee Correctional Center	1984	M	1,046	1,998	191%	$14,839
Level 4 - Medium Security						
Centralia Correctional Center	1980	M	750	1,528	204%	$19,435
Decatur Correctional Center	2000	F	500	517	103%	$36,164
Graham Correctional Center	1980	M	974	1,906	196%	$18,634
Logan Correctional Center	1978	M	1,050	1,903	181%	$16,551

APPENDIX C: continued

	Year Opened	Gender	Capacity	Average Daily Population	% Capacity	Average Annual Cost Per Inmate
Level 5 - High Minimum Security						
Jacksonville Correctional Center	1984	M	900	1,407	156%	$23,237
Lincoln Correctional Center	1984	F	500	885	177%	$22,832
Robinson Correctional Center	1991	M	600	1,193	199%	$18,035
Taylorville Correctional Center	1990	M	600	1,172	195%	$18,285
Level 6 - Minimum Security						
East Moline Correctional Center	1980	M	688	1,102	160%	$19,533
Southwestern Correctional Center	1995	M	600	661	110%	N/A
Vandalia Correctional Center	1921	M	949	1,494	157%	$22,258
Vienna Correctional Center	1965	M/F	885	1,595	180%	$17,370
Level 7 - Low Minimum Security						
Clayton Work Camp	N/A	N/A	N/A	N/A	N/A	N/A
Dixon Springs Impact Incarceration Program	N/A	N/A	N/A	N/A	N/A	N/A
DuQuoin Impact Incareration Program	N/A	N/A	N/A	N/A	N/A	N/A
East Moline Work Camp 1	N/A	N/A	N/A	N/A	N/A	N/A
East Moline Work Camp 2	N/A	N/A	N/A	N/A	N/A	N/A
Hardin City Work Camp	N/A	N/A	N/A	N/A	N/A	N/A
Kankakee Minimum Security Unit	N/A	N/A	N/A	N/A	N/A	N/A
Pittsfield Work Camp	N/A	N/A	N/A	N/A	N/A	N/A
Springfield Work Camp	N/A	N/A	N/A	N/A	N/A	N/A
Stateville Minimum Security Unit	N/A	N/A	N/A	N/A	N/A	N/A
Tamms Minimum Security Unit	N/A	N/A	N/A	N/A	N/A	N/A
Vandalia Work Camp	N/A	N/A	N/A	N/A	N/A	N/A

APPENDIX C: continued

	Year Opened	Gender	Capacity	Average Daily Population	% Capacity	Average Annual Cost Per Inmate
Level 8 - Transitional Security						
Crossroads Adult Transition Center	1983	M	250	321	128%	$21,500
Decatur Adult Transition Center	1979	M	80	108	135%	$15,480
Fox Valley Adult Transition Center	1972	F	100	117	117%	$17,107
Jessie Ma Houston Adult Transition Center	1980	M	200	120	60%	$51,403
North Lawndale Adult Transition Center	2000	M/F	200	197	99%	$20,557
Peoria Adult Transition Center	1972	M	200	176	88%	$21,248
Southern Illinois Adult Transition Center	1970	M	60	61	102%	$23,731
West Side Adult Transition Center	1993	M	190	187	98%	$23,033
Illinois Youth Centers						
Chicago	1999	M/F	130	104	80%	$76,095
Harrisburg	1983	M	276	326	118%	$52,545
Joliet	1959	M	344	292	85%	$56,351
Kewanee	2001	M	180	155	86%	$96,087
Muphysboro	1997	M	156	103	66%	$84,403
Pere Marquette	1963	F	N/A	N/A	N/A	N/A
Rushville	N/A	N/A	N/A	N/A	N/A	N/A
St. Charles	1904	M	318	432	136%	$56,163
Valley View	N/A	N/A	N/A	N/A	N/A	N/A
Warrenville	1973	F	86	103	120%	$80,365

[1]Thompson Correctional Center was built in 2001 but has never opened.

N/A - Data not available

Source: FY 2003 IDOC Annual Report, Illinois Department of Corrections

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;
2) Analysis of the fiscal impact of revenue bills;
3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
4) Periodic assessment of capital facility plans;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The “Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The “Financial Conditions of the Illinois Public Retirement Systems” provides an overview of the funding condition of the State’s retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees’ Group Insurance Program; and Report of the Cost and Savings of the State Employees’ Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission’s website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

http://www.ilga.gov/commission/cgfa2006/home.aspx